

Appraisal Institute 2010 Economic Forecast

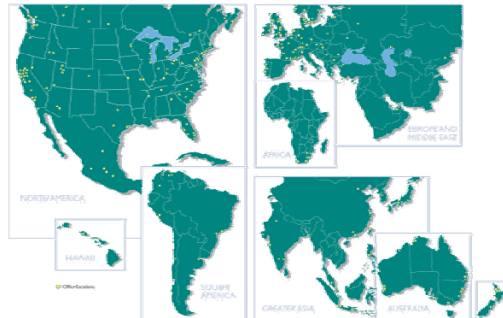
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Our Knowledge is your Property

Retail Market Overview January 2010

- Top 3 Commercial Real Estate Company Globally
- 294 offices in 61 countries.
- 94 USA Offices – 2 Sacramento Region Offices
- Average USA Colliers Firm > 40 Years in Their Market



2008 Revenue: \$1.6B
Professionals: 12,750
Managed SF: 1.1B



The Good News? Good Riddance to 2009

**2010: The Year
When “Not As
Bad”
Becomes
The New Good**



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Big Trends for 2010

- ❑ All Commercial Real Estate (CRE) is under pressure.
- ❑ Most markets not overbuilt but most markets have very weak demand
- ❑ CRE Property Values are down nationally
 - Vacancies are rising – all markets, all types
 - Rents are declining
 - Lending is almost non-existent
 - Risk premiums have increased (Capitalization Rate)

Big Trends for 2010

- ❑ Leasing paralysis is over
 - ❑ Leasing activity will increase in 2010
 - ❑ “Blend and Extend” will still dominate
 - ❑ Some space users who were postponing moves will be back this year
 - ❑ Slowly... SLOWLY increasing demand over the course of year
- ❑ Investment logjam will continue to loosen
 - ❑ Sales activity will increase over the course of 2010
 - ❑ Number of distressed assets returning to marketplace will continue to increase
- ❑ CRE Foreclosures will continue to hammer small/regional banks
 - ❑ More bank failures
 - ❑ Tighter CRE and Small Business Credit




Big Trends for 2010

- ❑ Some U.S. markets begin recovery this year
 - ❑ Cities with strongest housing markets will lead the way
 - ❑ Cities with weakest housing markets will recover last
- ❑ Some job creation at national level by late 2010
- ❑ Sacramento likely to lag national recovery by about a year—job creation here in 2011
- ❑ 2010 year of stabilization for Sacramento CRE
- ❑ Sacramento CRE recovery begins mid to late 2011...


Depending upon the wildcard...



State of California Budget Crisis



- \$20 Billion budget shortfall
- Credit Rating Dropped to A-
- Budget shortfall will worsen thanks to lower property tax assessments



State of California Budget Crisis

- Sacramento unemployment expected to hit 13.5% in Spring 2010
- Over 90,000 local jobs lost since beginning of recession
- Massive State of CA layoffs would disproportionately impact Sacramento
- Massive layoffs could further delay local recovery





Retail Market Overview January 2010

- Grocery Anchored Centers and Strong Regional Malls doing best.
- “Value” Retailers (TJX, Ross, Costco, Wal-Mart, Family Dollar, etc) doing best
- Retail construction is down to historically low levels and declining
- “Boom” areas are the biggest bust
- Tight credit impacts tenant improvement dollars
- Foreclosures will increase in 2010
- Tenant failures will continue but at a slower pace
- Retail bankruptcies will be mitigated by merger & acquisition activity

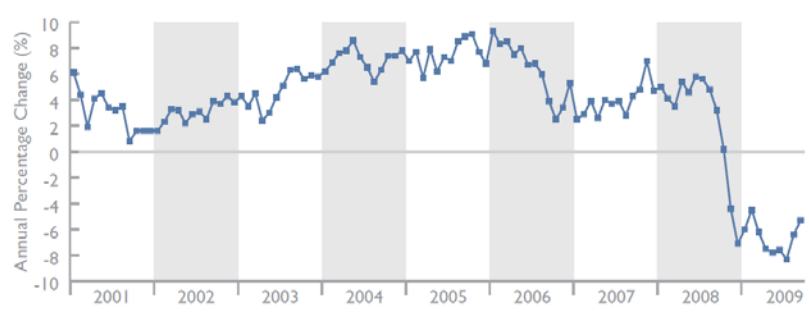
Retail Market Overview January 2010

	Fall 09	Spring 10
Rent Trend	↓	↓
Absorption	↓	↔
Construction	↓	↓
Vacancy	↑	↑
Consumer Spending	↓	↑



Retail Market Overview January 2010

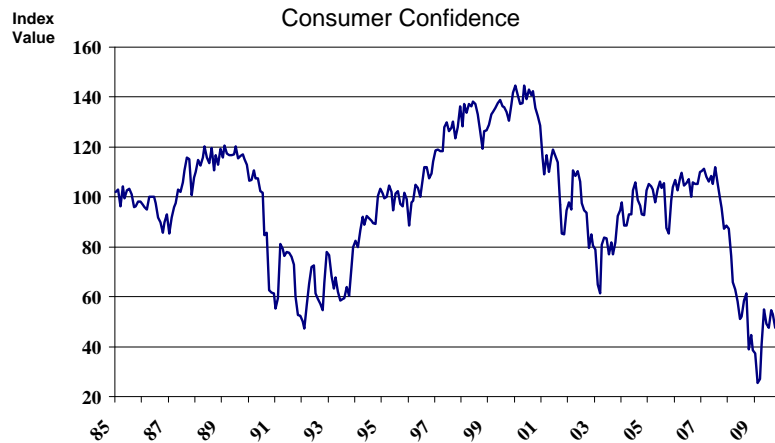
RETAIL SALES, LESS AUTOS AND PARTS



Source: U.S. Census Bureau



Retail Market Overview January 2010



Source: The Conference Board



Retail Market Overview January 2010

Consumer Confidence/Spending

- ❑ The Bad News
 - ❑ Employment key to stabilizing consumer sentiment—real job creation unlikely until late 2010
 - ❑ “Fear factor” still impacting consumer spending decisions
 - ❑ Consumer credit continues to decrease
 - ❑ Consumers saving/paying down debt (November was 14th consecutive month of declining consumer credit card debt—total consumer debt fell at annual rate of 8.5%)
 - ❑ Credit card companies pulling back



Retail Market Overview January 2010

Consumer Confidence/Spending

- ❑ The Good News
 - ❑ Consumers starting to save less/spend more
 - ❑ Personal savings rate dropped to 4.7% in November (peak of 6.2% in May)
 - ❑ Expect gradual improvement in consumer spending in 2010
 - ❑ Slowly improving economy
 - ❑ “Fear factor” fatigue lifts for many as job picture stabilizes



Retail Market Overview January 2010

- ❑ Most retailers have slowed new store expansion to a crawl
- ❑ Tenants attempting to reduce occupancy cost burden
 - “Blend and Extend”
 - Reduce CAM, Insurance and RE Tax Costs
 - Straight rent reductions
 - Enforcing co-tenancy clauses
 - No rent occupancy
- ❑ Tenants attempting to terminate or sublease under performing locations
- ❑ Landlord’s have very little leverage (Tenant’s Market)
- ❑ New construction slowdown will be problematic by 2012



Retail Market Overview January 2010

- ❑ Most restaurant chains looking to franchise models for growth
- ❑ Expect small business credit to tighten as more local and regional banks fail
- ❑ Smart franchise operations are already lowering barrier to entry for franchisees
- ❑ Landlords need to proceed with caution with franchisee tenants—many of these businesses will be volatile



Retail Market Overview January 2010

- ❑ Grocery Wars in 2010—more players looking for piece of the pie
 - ❑ Target looking to add 300 grocery components to existing stores
 - ❑ 7-Eleven looking to open as many as 750 stores in 2010/expand grocery offerings
 - ❑ Dollar store chains increasingly adding small grocery components to stores. Over 1,500 dollar stores to open in 2010. Dollar General alone has 600 in the pipeline
 - ❑ Walgreens to add larger grocery components with fresh food and premade selections... test markets in 2010... but possible rollout to all 7,149 store in 50 states by next year...likely to result in other major drug store chains exploring the concept by year end

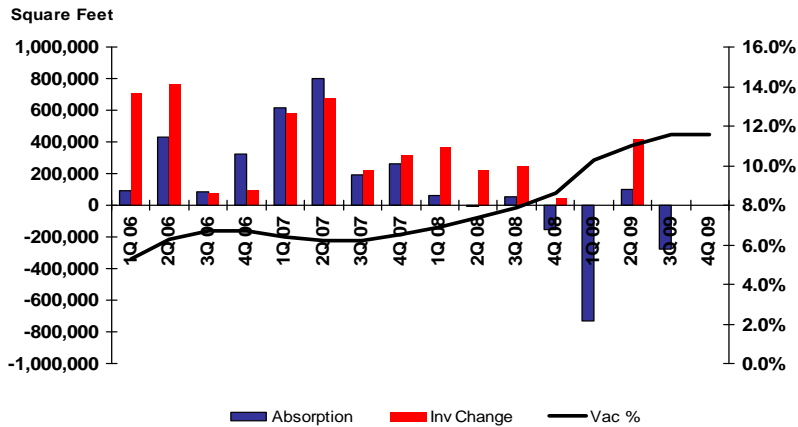


Retail Market Overview January 2010

- ❑ Grocery Wars in 2010—but the pie is shrinking...
 - ❑ Most grocers reporting increased traffic, increased transactions and increased shipping tonnage to their stores... but decreased sales
 - ❑ Brutal grocery price wars/price deflation is wiping out margins
 - ❑ More players trying to get a piece of pie
 - ❑ The pie is shrinking because of price deflation
 - ❑ Expect grocery consolidation in 2010
 - ❑ Non-union players will put the squeeze on traditional grocery store chains that are unionized
 - ❑ Weak regional chains at greatest risk
 - ❑ Large mid-price point chains also struggling



Sacramento Retail Market 4th Quarter 2009 Change in Inventory, Net Absorption & Vacancy



Shopping Centers with 25,000 sf or greater Gross Leasable Area
Source: Colliers International Research Department





Eye On The Market

Top 2009 Retail Leases

Recent Deals

RETAIL

Building	Submarket	Type	SF Transacted	Tenant	Notes
Marketplace 99	Elk Grove	Power	80,000	Burlington Coat Factory	Former Mervyns
Blue Oaks Town Center	Roseville/Rocklin	Regional	80,000	Theater (SR Entertainment)	Former Mervyns
Southgate Plaza Shopping Center	South Sacramento	Regional	65,765	99 Ranch Market	Renewal
Laguna 99 Plaza	Elk Grove	Regional	35,000	Confidential	Former Gottschalks
Laguna Gateway	Elk Grove	Regional	35,000	Henry's Market	Former Circuit City
2651 El Paseo Lane	Arden/Howe/Watt	Regional	35,000	William Glen	Town & Country Village Shopping Center (renewal)
Woodland Gateway	Woodland	Power	30,168	Best Buy	New Petrovich Center
3767 Watt Avenue	Rio Linda/North Highlands	Neighborhood	28,500	Ross Stores	Rite Aid Shopping Center new Lease
735 Riverpoint Court	West Sacramento	Power	27,500	Ross Stores	IKEA Center
2690 Sunrise Boulevard	Highway 50	Freestanding	23,480	US Furniture	Freestanding showroom
10835 Olson Drive	Highway 50	Regional	23,450	Ross Stores	Target Center
2500 Watt Avenue	Arden/Howe/Watt	Strip	15,650	Goodwill	Country Club Lanes



Retailers - Expanding

Anna's Linens	7-10,000 sf	DSW	15-25,000 sf
Apple Computer	3-5,000 & 15-20,000 sf	Famous Footwear	5-8,000 sf (malls)
Avis Car Rental	NA	Fantastic Sams	1,200-1,500 sf
Batteries Plus	NA	Foods Co	65-80,000 sf
Bed, Bath & Beyond	20-30,000 sf	Forever 21	2,500-90,000 sf
Brooks Bros	8-10,000 sf	Gamer Doc	800-1,500 sf
CPK	5,000 sf	Game Stop	1,200-2,000 sf
Carter's/OshKosh	2-4,000 sf	Golfsmith	20,000 sf
Children's Place	4,000 sf	H&M	10 - 40,000 sf
Staples Copy	4,000 sf	Henry Markets	20-30,000 sf
Citi Trends	5,000 sf	Home Goods	25-37,000 sf
Cost Cutters	900-1,200 sf	JoAnn Fabrics	35,000 sf
Costco	100,000 sf+	Jos A Banks	4,500 sf
Dollar Tree	10-12,000 sf	Kohl's	86-92,000 sf



Retailers – Expanding (cont....)

Massage Envy	2,500-4,500 sf	Sprouts Organic Grocery	20-30,000 sf
Old Navy	15-19,000 sf	Staples	15,000 sf
Payless Shoes	2700-3300 sf	Styles for Less	2,500-3,000 sf
Pet Food Express	6,500 sf	Supercuts	900-1,200 sf
Petco	12-15,000 sf	Sylvan Learning Centers	1,600-2,500 sf
Party City	12,000 sf	Target	125-175,000 sf
Rack Room Shoes	6,000 sf malls	The Avenue	4,500 sf
Rainbow	5,000 sf	TJ Maxx/Shoe Store	10,000 sf
Sleep Train	5,000 sf	Villa Sport	70-80,000 sf
Smart and Final Extra	25-30,000 sf	Walgreens	14,500 sf
Sports Chalet	40,000 sf	Zara (malls)	up to 14,000 sf



Restaurants - Expanding

Bad Ass Coffee	up to 1,800 sf	Golden Corral	11,000 sf
Beach Pit BBQ	2 – 2,500 sf	Habit Burger	1,500 – 2,200
Big Swirl Yogurt	up to 1,500 sf	Java City	up to 3,000 sf
Boston Market	up to 3,500 sf	Jimmy John's	up to 1,500 sf
Cheba Hut	2,000 sf	Johnny Rockets	up to 3,500 sf
Churro Station (malls)	800 sf	Julie's Thin Crust	up to 2,500 sf
Cici's Pizza	up to 4,200 sf	L&L Hawaiian BBQ	up to 2,500 sf
Einstein's/Noah's	up to 2,500 sf	Maos Vegetarian	1,000 sf
El Pollo Loco	up to 3,500 sf	Marco's Pizza	up to 1,400 sf
Extreme Pita	1 – 2,000 sf	Mary's Pizza Shack	up to 4,000 sf
Extreme Pizza	up to 2,500 sf	McDonald's	4,000 sf Pad
Five Guys Burgers & Fries	1 – 2,000 sf	Mr. Pickles	1 – 2,000 sf
Fraiche Yogurt	800-1,500 sf	Old Chicago Pizza & Pasta	up to 4,500 sf
Fuddruckers	up to 5,500 sf	Pacific Yogurt Partners	up to 1,200 sf
Fuzio Universal Bistro	3 – 3,500 sf		



Restaurants – Expanding (cont...)

Panera Bread	up to 4,500 sf	SF Sourdough Eatery	N/A
Pho Hoa	2 – 4,000 sf	Shakey's Pizza	up to 4,000 sf
Phoa Noodle	1200-1800 sf	Smashburger	1,800 sf
Pinkberry	up to 2,000 sf	Spicy Pickle	up to 1,800 sf
Pizza Patron	up to 1,200 sf	Sonoma Chicken Coop	5-8,000 sf Pad
Pizzeria Venti	2,500 sf	Spoon Me	up to 1,300 sf
Popeye's Chicken	2,500 sf Pad	Submarina	up to 2,500 sf
Red Mango	up to 1,200 sf	Subway	1 – 2,000 sf
Round Table Pizza	2 – 3,000 sf	ToGo's	up to 2,400 sf
Rubio's Mexican Grill	2 – 2,600 sf	U-Food Grill (airports)	800 to 2,000 sf
Sandella's Flatbread	up to 1,500 sf	Wahoo's Fish Tacos	up to 2,500 sf
Seller's Markets	up to 3,300 sf	Wing Stop	1,500 sf



Sacramento Industrial Market



Overall Vacancy 11.6%--was 10.5% one year ago.

Just over 1.9 Million SF occupancy losses throughout 2009

Overall asking rents fell by 15%--some landlords dropped by as much as 30%

Zero construction



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Sacramento Industrial Market

4th Quarter 2009

Occupancy is the Name of the Game

	Asking Price 2007	Asking Price 2010
Flex/R&D	\$1.10 PSF	\$.90 PSF
Incubator Space	\$.75 PSF	\$.50 PSF
Incubator Space	\$.50 PSF	\$.35 PSF
Bulk Warehouse/Distribution	\$.35 PSF	\$.25 PSF
Older Cold Storage/Buildings with Functional Obsolescence	\$.30 PSF	\$.15 PSF

Most Sacramento region industrial landlords have aggressively dropped rents and are signing shorter term deals. Also, whereas triple net deals dominated the landscape until recently, most of today's deals have featured industrial gross expense structures.

Source: Colliers International Research Department



Sacramento Industrial Weaknesses



Construction Related Users Will Continue To be Hammered
Manufacturing Will Continue to be Weak
Small user requirements are down
Shadow vacancy remains problem
Downward Pressure on Rents



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Sacramento Industrial Strengths



Large user requirements up
Flurry of larger deals to end 2009
Distribution users (particularly food related) very active
Local distribution space now at competitive pricing



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Eye On The Market

Top 2009 Industrial Leases

Recent Deals

INDUSTRIAL

Building	Submarket	Type	SF Transacted	Tenant	Notes
2935 Ramco Street	West Sacramento	Wrhs	444,600	Safeway	Renewal
10000 Allantown Drive	Roseville/Rocklin	Wrhs	272,145	RC Willey	Renewal
8670 Younger Creek Drie	Power Inn	Wrhs	214,434	Nestle Waters	New Lease
8151 Fruitridge Road	Power Inn	Wrhs	182,925	Jardin Home Brands	New Lease
1685 E Tide Court	Davis/Woodland	Wrhs	151,200	E&E Trading	Renewal
3010 Ramco Street	West Sacramento	Wrhs	129,660	NorCal Beverage	New Lease
849 N. 10 th Street	Richards Blvd/River District	Wrhs	113,000	Valet Indoor RV	New Lease
8670 Younger Creek Dr	Power Inn	Wrhs	101,256	Continental Warehouse	Renewal
1740 Enterprise Boulevard	West Sacramento	Wrhs	86,400	Confidential	New Lease
1675 Overland Court	West Sacramento	Wrhs	98,496	Flow Master	New Lease
1660 Tide Court	Davis/Woodland	Wrhs	91,445	Amerimax Building Products	Renewal
1425 E. Beamer Street	Davis/Woodland	Wrhs	90,240	Sun Foods	New Lease



Industrial Submarkets



West Sacramento—Among the Lowest Vacancy Rates—5.5%

Natomas/Northgate—Best Concentration of Institutional Grade Product/Continued Solid Demand

South Sacramento/Power Inn/Richards—Great Deals on Older Buildings

Sunrise/Highway 50/Mather—continues to hemorrhage housing related users

South Placer County—Weak and Overbuilt Flex Market/OK Demand for Warehouse

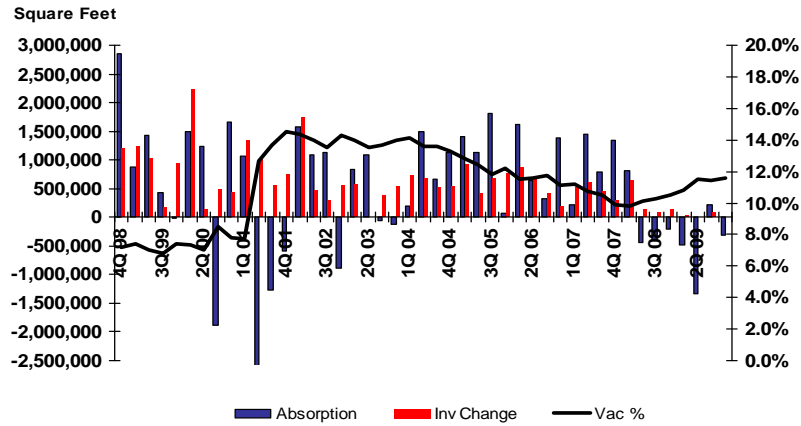


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Sacramento Industrial Market

4th Quarter 2009

Change in Inventory, Net Absorption & Vacancy



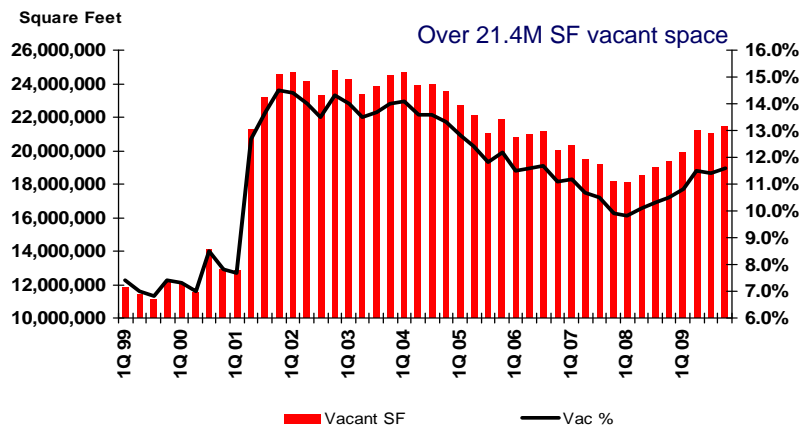
Source: Colliers International Research Department



Sacramento Industrial Market

4th Quarter 2009

Vacant SF/Vacancy Rate

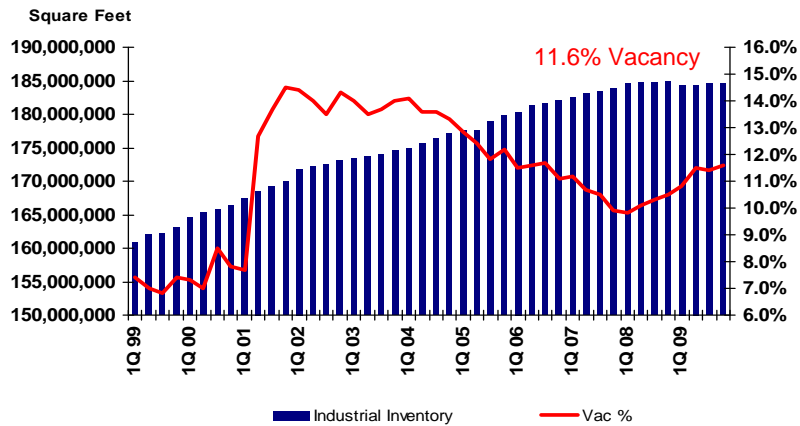


Source: Colliers International Research Department



Sacramento Industrial Market 4th Quarter 2009

Inventory (Total SF) & Vacancy

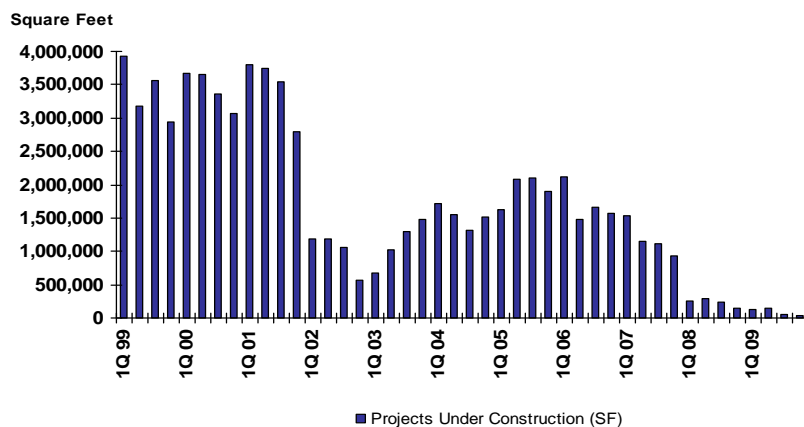


Source: Colliers International Research Department



Sacramento Industrial Market 4th Quarter 2009

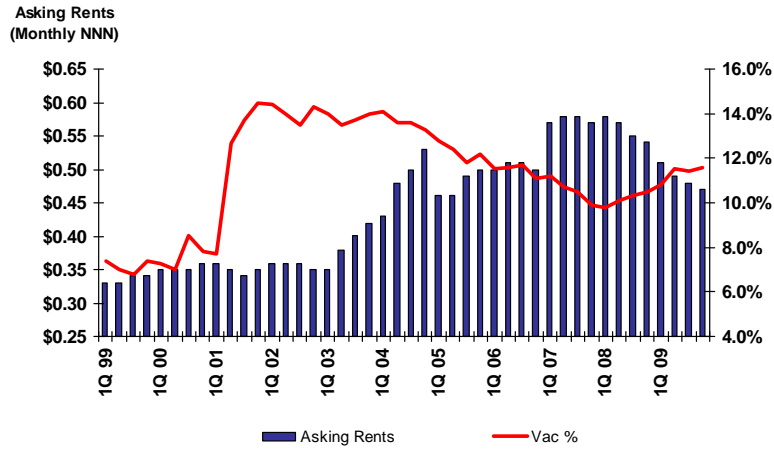
Construction Pipeline



Source: Colliers International Research Department



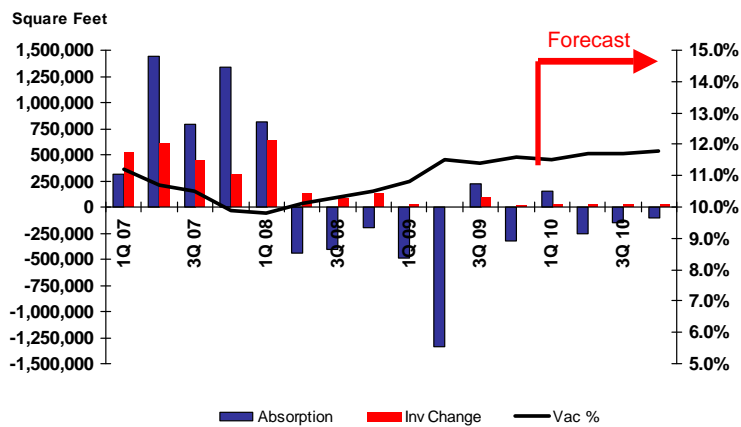
Sacramento Industrial Market 4th Quarter 2009 Asking Rents Vs. Vacancy



Source: Colliers International Research Department



Sacramento Industrial Market 2010 Forecast Change in Inventory, Net Absorption & Vacancy



Source: Colliers International Research Department



Industrial Looking Ahead



Industrial—First to Recover

Occupancy losses from smaller users likely to outpace gains from active larger users over first half of year

Once in generation pricing

Blend and extend

Increased activity from businesses that had postponed moves in 2009



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skyscraper_front.jpg

2010 Office Outlook

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Sacramento Office Notes

Vacancy at 15.8%. Occupancy freefall stabilized in fourth quarter

122,000 square feet positive net absorption in fourth quarter.

Activity increasing

Legal, Medical, Education (trade schools) active

Mortgage lenders active again

Blend and Extend

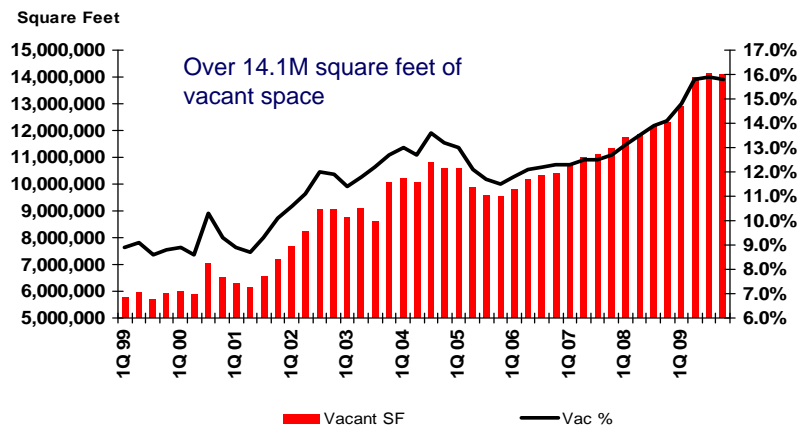


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Sacramento Office Market

4th Quarter 2009

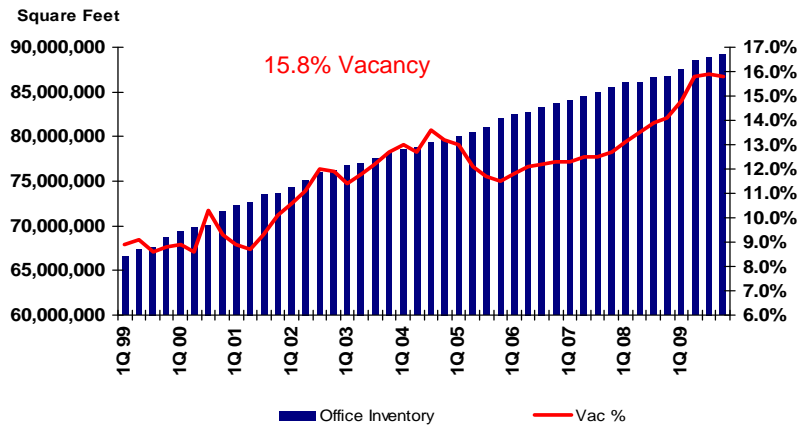
Vacant SF/Vacancy Rate



Source: Colliers International Research Department



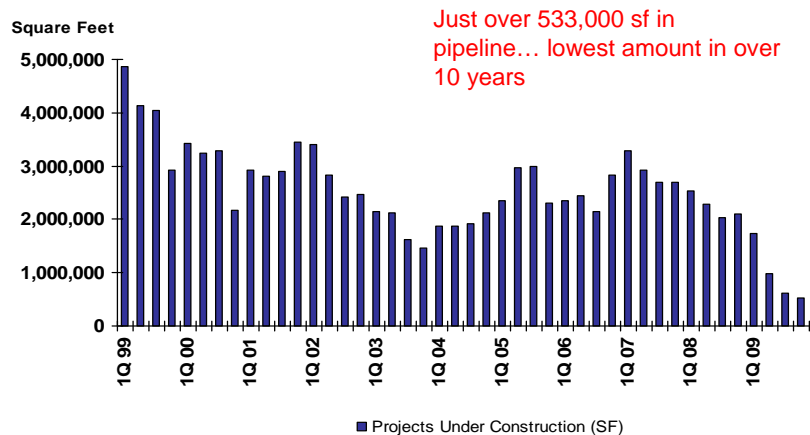
Sacramento Office Market 4th Quarter 2009 Inventory (Total SF) & Vacancy



Source: Colliers International Research Department



Sacramento Office Market 4th Quarter 2009 Construction Pipeline



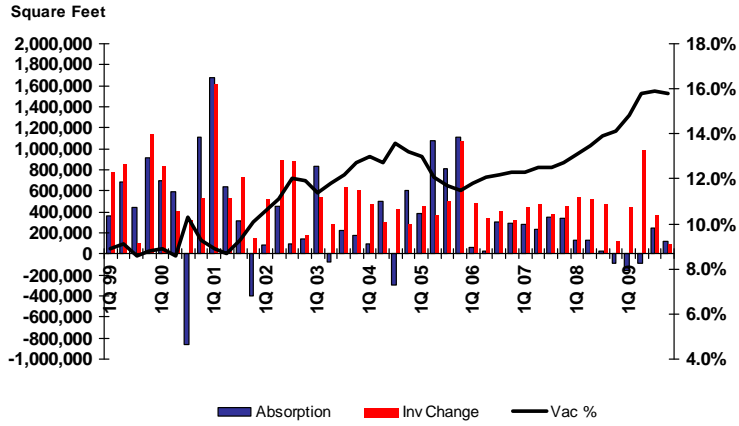
Source: Colliers International Research Department



Sacramento Office Market

4th Quarter 2009

Change in Inventory, Net Absorption & Vacancy



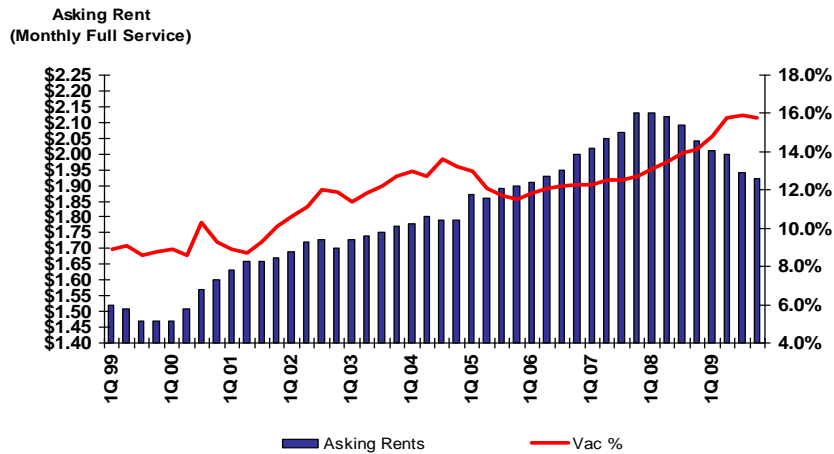
Source: Colliers International Research Department



Sacramento Office Market

4th Quarter 2009

Asking Rents Vs. Vacancy



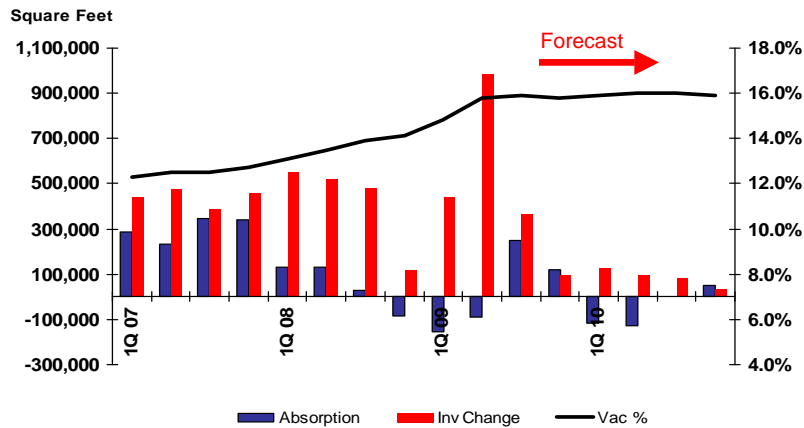
Source: Colliers International Research Department



Sacramento Office Market

2009 Forecast

Change in Inventory, Net Absorption & Vacancy



Source: Colliers International Research Department



Office Submarkets



Downtown—Core User Types: Government, Legal, Lobbyists... Not Expected to Contract. Vacancy continues to decrease

Folsom—Vacancy decreases by end of 2009, positive absorption throughout year

Roseville—Continued struggles... vacancy at 26.6%. Rate of vacancy increase slowing, but still moving wrong direction. Vacancy overhang here could last another five years

Point West—hammered by loss of USAA. 27.5% vacancy, but major campus user could make huge difference



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Office Looking Ahead

Best Case Scenario: Office Stabilizes in 2010, begins real recovery in 2011

Further vacancy increases likely

Too soon to call bottom

Downward pressure on rents remains through 2010

Major State of CA layoffs could further delay recovery in region, but likely will not result in large blocks of State-occupied office space returned to market



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Eye On The Market

Select 2009 Office Leases

Recent Deals

OFFICE

Building	Submarket	SF Transacted	Tenant	Notes
1325 J Street	Downtown	227,000	US Army Corps of Engineers	Renewal
1625 Stockton Boulevard	East Sacramento	141,210	Sutter Health	
501 - 525 J Street	Downtown	132,207	State of CA DGS	
3215 Prospect Drive	Highway 50	101,400	EDS	
2235 Iron Point Road	Folsom	96,400	Numonyx	New Lease
4330 Watt Avenue	Watt Ave	81,805	IRS	
11185 International Drive	Highway 50	76,754	Delta Dental	
2870 Kilgore Road	Highway 50	75,626	Volcano	
11000 White Rock Road	Highway 50	53,742	Wachovia Education Finance	
2485 Natomas Park Drive	South Natomas	51,980	Ch2m Hill Company	
2600 V Street	Midtown	45,000	Country Day School	
145 Parkshore Drive	Folsom	38,394	Sierra Nevada Corporation	



It Can Only Get Better...

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